



December 15, 2015

To the Honorable Board of Supervisors  
County of Los Angeles, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County) for the year ended June 30, 2015. We did not audit the financial statements of the Community Development Commission (discretely presented component unit), Los Angeles County Children and Families First – Proposition 10 Commission (First 5 LA) (discretely presented component unit), and the Los Angeles County Employees' Retirement Association (pension trust fund), which are included in the County's basic financial statements. Accordingly, this communication does not include the results of those audits. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 28, 2015. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, effective July 1, 2014, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the County's financial statements were:

- Fair values of investments are based on quoted market prices from independent published sources;
- Accrual and disclosure of claims liabilities for workers' compensation and long-term disability claims were based on actuarial valuations. General liability, automobile and medical malpractice liability claims were based on historical loss and other data. The liability for other claims was determined by County Counsel and attorney judgment about the ultimate outcome of the claims.

- Actuarial valuations of annual required contributions for the pension and other postemployment benefits (OPEB) plans, the net pension liability for pension benefits and related deferred inflows and outflows of resources and pension expense, and the funded status of the OPEB plan are based on actuarial calculations, which incorporate actuarial methods and assumptions adopted by the Board of Retirement of the Los Angeles County Employees' Retirement Association and the County;
- Accrual and disclosure of compensated absences are based on unused vacation, compensatory, and holiday time at year-end multiplied by current pay rates;
- Estimates of contractual adjustments and uncollectible patient accounts receivables are based on historical collections and reimbursement formulas prescribed by federal and state legislation;
- The County provides services to patients covered by various reimbursement programs. The amount of revenue to recognize under these programs is subject to management's best estimates of the revenue that will ultimately be collected based on governmental regulations and contractual terms, including the assessment of risk related to potential retroactive audit adjustments and other uncertainties; and
- Useful lives for depreciable capital assets and infrastructure were determined by management based on the nature of the assets. The County uses the straight-line method of depreciation.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the County's basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The Pension Plan disclosures in Note 8 to the financial statements related to the plan's provisions, net pension liability, related deferred inflows and outflows of resources, and pension expense.
- The OPEB disclosures in Note 9 to the financial statements related to Unfunded Actuarial Accrued Liability (UAAL), funded status, annual OPEB cost and net OPEB obligation.
- The Hospital and Other Program Revenues disclosures in Note 14 to the financial statements related to the hospital funding sources.
- The Risk Management disclosures in Note 18 to the financial statements related to claims liabilities.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no corrected misstatements as a result of our audit. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 15, 2015.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of net pension liability and related ratios, schedule of County's contributions and schedules of funding progress for OPEB, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining and individual fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is

appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introduction section and statistical section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Supervisors and management of the County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style. The "L" in "LLP" is particularly large and stylized, with a loop that extends upwards and to the right.

Macias Gini & O'Connell LLP

**COUNTY OF LOS ANGELES**  
Summary of Uncorrected Misstatements-Fund Based  
June 30, 2015

Description	Balance Sheet/Statement of Net Position		Statement of Revenues, Expenditures/ Expenses and Changes in Fund Balances/ Fund Net Position	
	Debit	(Credit)	Debit	(Credit)
<b>Regional Park and Open Space District</b>				
1 Maintenance Expenditures			\$ 1,476,143	
Accounts Payable		\$ 1,476,143		
To recognize expenditures incurred for the period of 7/1/14- 4/30/15.				
<b>Flood Control District</b>				
2 Capital Asset Expenditures			597,550	
Accounts Payable		597,550		
To properly record expenditures incurred in FY14-15 related to Public Works infrastructure, Oxford Basin.				
<b>Total</b>	-	\$ 2,073,693	\$ 2,073,693	-
<b>Aggregate Remaining Funds</b>				
3 Issuance of debt- Debt Service Fund			\$ 266,957,000	
Notes Payable- Debt Service Fund		\$ 266,957,000		
Issuance of debt- Capital Project Fund			41,639,000	
Notes Payable- Capital Project Fund		41,639,000		
To reclassify the commercial paper transaction from long- term to short-term due to the revolving credit facility agreement expiring on April 18, 2016.				
4 Cash	\$ 78,735,000			
Accounts Receivable	44,016,000			
Investment -Fixed Income	110,542,000			
Accounts Payable-Other		122,752,000		
Due to Employers		110,541,000		
To report OPEB activity related to employers not part of the County's reporting entity in an agency fund.				
<b>Total</b>	\$ 233,293,000	\$ 541,889,000	\$ 308,596,000	-